

GAO

Report to the Chairman, Subcommittee on
Federal Services, Post Office, and Civil
Service, Committee on Governmental
Affairs, U.S. Senate

November 1988

FEDERAL PRODUCTIVITY

DOD's Experience in Contracting Out Commercially Available Activities



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United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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November 28, 1988

The Honorable David Pryor
Chairman, Subcommittee on
Federal Services, Post Office,
and Civil Service
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your request that we evaluate the implementation of the Office of Management and Budget (OMB) Circular A-76, "Performance of Commercial Activities." The report summarizes GAO's prior studies of A-76, discusses key implementation issues such as the program's potential cost savings, agencies' progress in attaining cost study goals, and how the process affects government employees and operations. The report was based in large part on the experience of the Department of Defense, the agency with the most experience in implementing A-76.

As arranged with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to other appropriate congressional committees and members, the Director of the Office of Management and Budget, and the Secretary of Defense. Copies will also be made available to other interested parties upon request.

Sincerely yours,

Gene L. Dodaro
Associate Director

Executive Summary

Purpose

Few federal efforts have been the subject of such long-standing controversy as the process for deciding whether to contract with the private sector for commercial activities or continue having federal workers provide them. The current process for making such decisions is outlined in Office of Management and Budget (OMB) Circular A-76.

While many assert greater implementation of A-76 could save billions of dollars, the A-76 process continually has generated interest and concern from government employees, contractors, and congressional leaders about issues regarding the program's implementation. This report, which summarizes GAO's prior studies of A-76, discusses key implementation issues, such as the program's potential cost savings, agencies' progress in attaining cost study goals, and how the process affects government employees and operations. It was prepared at the request of the Chairman, Subcommittee on Federal Services, Post Office, and Civil Service, Senate Committee on Governmental Affairs, and was based in large part on the experience of the Department of Defense (DOD)—the agency with the most experience in implementing A-76.

Background

OMB Circular A-76—"Performance of Commercial Activities"—provides that agencies 1) define their work requirements; 2) study the most efficient way to provide the requirements using a federal workforce, and determine the cost; and 3) compare that cost with private sector bids. If it is more economical to have a contractor provide the activities, they are to be contracted out. If not, the activities are to remain in-house, but the government must implement the efficiency standards developed during the cost study process to streamline operations and reduce costs.

Certain government functions are not subject to contracting out under A-76, as they are so closely related to the public interest that they must continue to be done by federal employees. These functions are referred to as "inherently governmental," and include activities such as criminal investigations and tax collection. In addition, Congress has exempted some activities from the cost study process.

Those government activities that are subject to studies to determine if they are eligible for contracting out include a wide array of functions, such as custodial services, data processing, laundry and dry cleaning services, and vehicle and facilities maintenance. OMB estimates that there are 750,000 federal positions subject to study. In total, during the last 4 fiscal years, less than 40,000 positions have been studied; of these, DOD has studied about 78 percent.

Results in Brief

The A-76 process has led to savings and encouraged competition for providing quality goods and services. Nearly half of DOD's A-76 cost comparisons have resulted in decisions to continue operating commercial activities with a government workforce. Many DOD managers support the concept of government/private sector competition and recognize its objectives of seeking efficiencies and cost savings.

However, major concerns raised by federal employees and unions regarding various implementation issues continually cloud the A-76 cost study process. DOD A-76 cost studies often have been time-consuming, difficult, disruptive, and threatening to activity managers and employees.

Agencies have achieved only a fraction of past goals set by OMB for studying positions. OMB has recently set new goals, however, and these are nearly double those established in the past. Based on agencies' past progress in meeting OMB's goals, and given the length of time cost studies take, it is unlikely that the new goals will be met.

GAO's Analysis

DOD's Progress in Implementing A-76

DOD's implementation of A-76 increased competition between contractors and federal employees and resulted in a DOD-estimated \$613 million annual savings. Even when cost studies resulted in a decision to maintain the government workforce, substantial savings were achieved because federal managers were required to study organizational inefficiencies and streamline their operations. (See pp. 14 and 15.) Although DOD managers recognize the validity of the A-76 concept and the emphasis placed on the program, they also cite problems which hinder wider acceptance.

Problems Encountered in Implementing A-76

The cost study process often has been burdensome. Federal managers and employees whose functions are being studied are responsible for developing the detailed work statement and streamlined workforce configuration used to compete their in-house operation with the private sector—tasks they often are not skilled in, may never do again, and are given to do as extra duties. Work statements often are incomplete or lack the specificity of requirements and tasks needed by the in-house

workforce to estimate costs, and to enable contractors to develop accurate bids.

The cost study process also is time-consuming and in some cases has had an adverse impact on agency missions. On average, it has taken DOD about 2 years to complete cost studies. Forty percent took more than 2 years to complete, and 4 percent took 5 to 8 years. During this time, some affected employees sought positions elsewhere. As a result, managers—faced with a reduced workforce—had to ensure that essential support functions were accomplished.

These factors have reportedly created low morale and reduced the productivity of the employees whose jobs were at stake. While DOD managers often view A-76 as a worthwhile process for ultimately achieving greater efficiencies, they perceived the current process as disruptive to the labor force. (See p. 17.)

Effect on Employees

In the past, GAO reviewed the effect on a random sample of federal employees when their activities were contracted out. In 1985, GAO reported that of 2,535 displaced employees, 74 percent found other government jobs, with the majority taking positions at lower grades; 7 percent went to work for the contractor; 5 percent were involuntarily separated; and most of the remaining employees resigned or retired. (See p. 20.)

Program Goals May Not Be Achieved

Estimates of the potential annual cost savings to be derived from the A-76 program—assuming governmentwide implementation—range as high as \$4.6 billion. However, agencies have not fully implemented the program. From fiscal year 1984 through 1987, OMB targeted 149,980 commercial activities positions to be studied by agencies. Agencies actually studied 38,926 positions (an annual average of 9,732), or about 26 percent of the established goals. (See p. 24.)

On November 19, 1987, the President signed Executive Order 12615 which, among other things, increased the number of positions agencies should annually study. Beginning in fiscal year 1989, agencies have been directed to study a combined total of 60,000 positions annually—more than a six-fold increase over agencies' 1984 through 1987 average study rate. Based on agencies' anticipated savings resulting from A-76, OMB plans to reduce agencies' budget submissions at the outset of each

budget cycle to stimulate compliance. However, unless agencies demonstrate a dramatic departure from their past experience, it is unlikely that the new goals will be achieved. (See p. 27.)

Recommendations

The primary purpose of this report is to provide information on agencies' implementation of OMB Circular A-76. GAO is making no recommendations in this report.

Agency Comments

DOD and OMB commented on a draft of this report. DOD concurred with its findings (see app. III), and OMB said that the report generally gives an accurate overview of DOD's implementation of A-76. OMB believed GAO should discuss whether the problems noted in the report were due to DOD management or to the A-76 process.

The report cites implementation problems reflecting poor management, such as incomplete and ambiguous work statements, leading to unanticipated cost increases. However, managers who have done cost studies perceive the process as burdensome and time-consuming. Therefore, it is not possible to solely attribute implementation problems to either DOD management or the A-76 process. OMB's comments and GAO's evaluation are discussed in appendix IV.

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Related GAO Products

50

Abbreviations

AID	Agency for International Development
ADP	Automated Data Processing
CBO	Congressional Budget Office
DOD	Department of Defense
FTE	Full-Time Equivalent
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IG	Inspector General
LMI	Logistics Management Institute
MEO	Most Efficient Organization
NAPA	National Academy of Public Administration
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PPSSCC	President's Private Sector Survey on Cost Control
PWS	Performance Work Statement
VA	Veterans Administration

Introduction

The current government policy for procuring goods and services needed by departments and agencies is outlined in Office of Management and Budget (OMB) Circular A-76. It requires executive branch agencies to procure commercial goods and services from private sector sources when they can accomplish the same quality job at less cost than a government function. Such commercial activities include food service, vehicle maintenance, and laundry services.

In contrast, some government functions are so closely related to the public interest that they must continue to be done by federal employees. These functions—referred to as “inherently governmental”—are not subject to A-76 contracting out, and include activities such as criminal investigations and prosecutions, tax collection, and revenue disbursements.

The A-76 program is controversial. Those who support the program, such as OMB, are convinced it is a disciplined approach to management, and emphasize that the program improves the quality of the services provided, as well as reduces federal costs, by improving government management. Opponents of the program point out the time-consuming process, the technical problems encountered by the staff who do cost studies, and the disruptive effects A-76 has on agency mission and particularly on agency employees.

Objectives, Scope, and Methodology

We undertook this study at the request of Senator David Pryor, Chairman, Subcommittee on Federal Services, Post Office, and Civil Service, Senate Committee on Governmental Affairs. This report provides information on a range of questions frequently asked about the A-76 program and is a first step in a longer-term effort to comprehensively review the program.

To develop the information in this report, we reviewed 65 of our previously published products—issued from August 8, 1980, to August 6, 1987—which specifically addressed A-76. (A selected list of applicable reports is included at the end of this report.) We also reviewed 43 reports provided by the Inspectors General and audit staffs of the Department of Defense (DOD), the Army, the Navy, and the Air Force, which were issued during the same time frame. Our research focused on DOD's reports because DOD has completed more A-76 cost studies than the civilian departments and agencies. During fiscal years 1984 through 1987, DOD accounted for about 78 percent of the 38,926 positions studied governmentwide.

To get an indication of whether procedural problems are still being encountered during the cost study process, we reviewed three commercial activities contracts, which were awarded to private sector contractors in 1983 and 1985. The three contracts were awarded by the Army, and were the result of A-76 cost comparisons. We analyzed contract documents and supporting information, and interviewed staff who participated in the cost studies to identify concerns expressed by line managers and affected federal employees. We did this work between August and November 1987 and in accordance with generally accepted government auditing standards.

We also analyzed testimony of expert witnesses who appeared before the President's Commission on Privatization in January 1988. The Commission was established by Executive Order, and was chartered to study all activities of the federal government, identify those activities that are not proper federal responsibilities, and report to the President on the appropriate federal activities that can be contracted to the private sector. Their report was issued in March 1988.

DOD and OMB commented on a draft of this report. DOD's comments are included in appendix III. OMB's comments and our evaluation are discussed on page 29 in chapter 2, and in appendix IV.

The Evolution and Implementation of A-76

This chapter discusses, in a question-and-answer format, the evolution and implementation of the A-76 program. Specifically, it addresses

- the evolution of A-76 policy;
- how agencies do A-76 cost studies and the types of commercial activities reviewed;
- the difficulties encountered when doing cost studies;
- what happens to federal employees whose jobs are eliminated as a result of cost study decisions;
- estimated cost savings to be achieved from the A-76 program; and
- agencies' progress in complying with OMB policy and guidance.

How Has A-76 Policy Evolved?

Over 30 years ago, the government established a policy that it should rely on—not compete with—the private sector for commercial goods and services. During the interim years, this policy emphasis has gradually changed from almost outright reliance on private sector sources, to qualified reliance, and finally to the current policy of competing for performance of government commercial activities with private industry.

The first policy directive discouraged agencies from competing with the private sector. Issued in 1955 as Bureau of the Budget Bulletin 55-4, it instructed agencies to rely solely on commercial sources of supply. The relative costs of government operations were to be a factor only in those cases where the agency head concluded that the product or service could not be purchased on a competitive basis and at a reasonable price. The directive communicated the policy that the “Federal Government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels.” Exceptions to the policy were permitted only in specific cases where use of the private sector clearly would not be in the public interest.

In 1967, the policy shifted to introduce competition between government-operated commercial activities and the private sector. This policy directed that the cost of the function being accomplished by agency employees be compared with the costs of contracting the function to the private sector if there was reason to believe that savings could be realized when the government continued to provide for its own needs. Thus, costs were to be factored into the decision to retain the function in-house or contract out, thereby modifying the initial concept that it was inappropriate for the federal government to ordinarily compete with private

enterprise. The 1967 policy, however, lacked detailed guidance on how agencies were to compare costs with private enterprise.

OMB's¹ 1979 Circular revision further emphasized this cost comparison concept by underscoring that the taxpayer is entitled to economy and efficiency in government operations. To support the increased emphasis on relative cost, detailed guidance was provided to agencies to establish consistency in the cost comparisons. The revision also introduced a new management concept to the federal government, as it specified that agencies should define their needs for each commercial activity in terms of measurable performance standards, not in terms of "how" the government does the work, and develop a formal measurement system to ensure quality service, whether the government obtains the service with government employees or a private sector contractor. In commenting on a draft of this report, OMB characterized the 1979 revision as providing a more disciplined management approach to government operations.

The current OMB Circular A-76, "Performance of Commercial Activities," was issued on August 4, 1983. Among other things, the 1983 revision directed that federal organizations make management efficiency studies of their activities to determine the most efficient and effective operation possible, to enable the in-house workforce to be more competitive with private sector contractors.

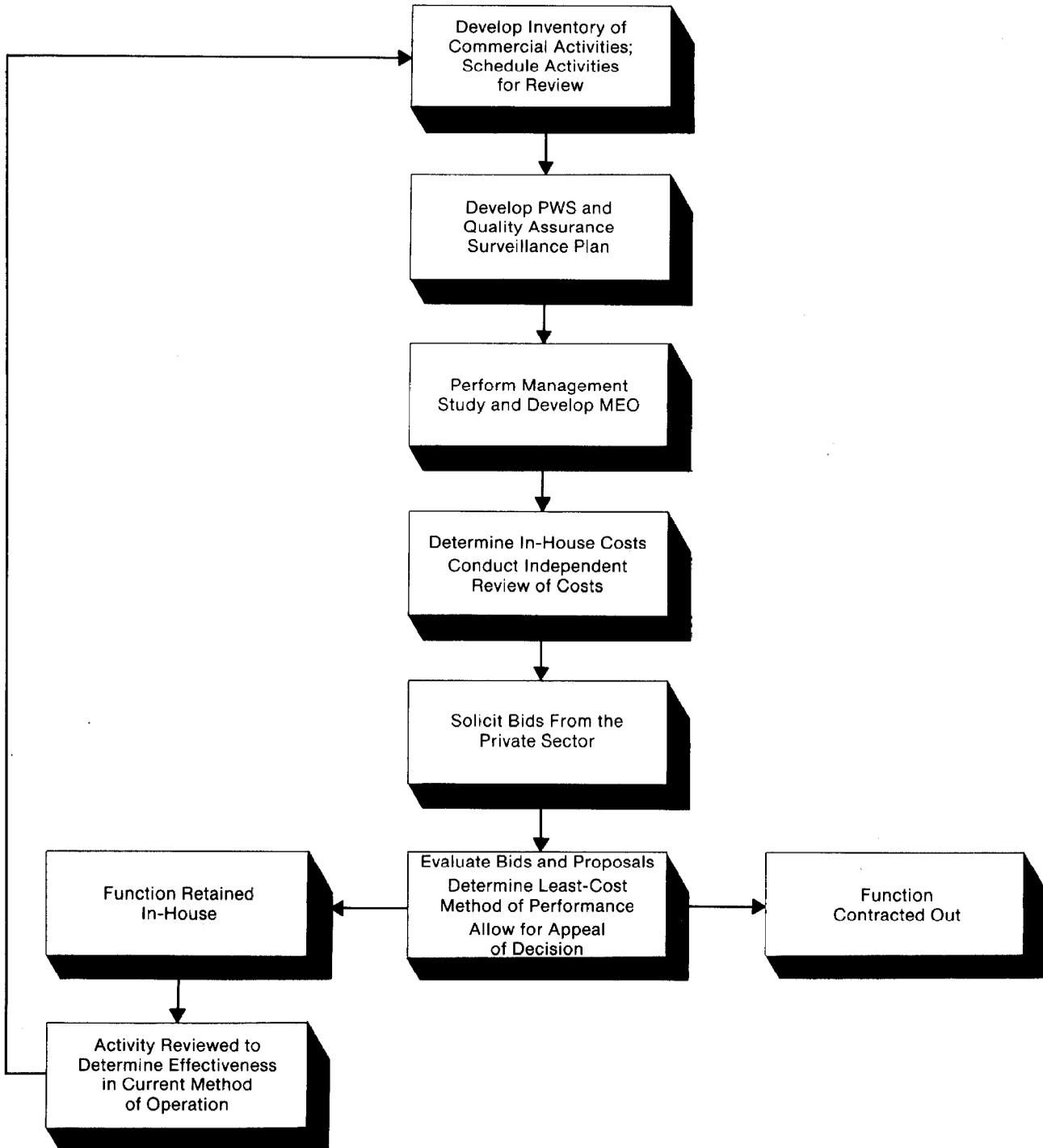
On November 19, 1987, the President signed Executive Order 12615, which reaffirmed the government's policy of acquiring needed goods and services in the most economical and efficient manner. The Order directed OMB to issue guidance to departments and agencies to ensure equitable cost comparisons, and to establish a tracking system to monitor agencies' progress in implementing A-76.

What Is Involved in Doing a Cost Study?

The A-76 process has several steps that are intended to help ensure reliable estimates and allow affected parties an opportunity to express their views. The process is to guide agencies in their determinations as to whether commercial activities can be done more economically and efficiently by contract or by an in-house workforce. To make this determination, agencies complete cost studies following the general process outlined in figure 2.1.

¹Reorganization Plan No. 2 of 1970, 5 U.S.C. Appendix created OMB, thereby replacing the Bureau of the Budget.

Figure 2.1: Process for A-76 Review of Existing Government Activities and Expansions



Briefly, this process requires that agencies identify all activities being done by the government that could be done by non-federal sources, and schedule those activities for review. As the initial step in the actual A-76 cost study process, the government must precisely define the performance standards (quality, timeliness, quantity) of the work it is doing and expects to do in the future.

These standards are incorporated in a written document called the performance work statement (PWS). The PWS also contains a quality assurance surveillance plan to be used to measure actual contractor performance in the event the contractor wins the competition. Developing a complete, accurate PWS is a very important step in the cost study process, as it is the basis for developing both the in-house cost estimate and contractors' bids. In commenting on a draft of this report, OMB characterized the PWS as the government's new management plan for the service.

The 1983 Circular revision requires that government commercial activities managers do management efficiency studies to determine how the in-house workforce must be optimally organized and equipped to most efficiently accomplish the performance standards specified in the PWS. The in-house workforce's most efficient organization (MEO) enables the government workers to be more competitive with private sector contractors in bidding for the work. The government next determines how much it would cost to operate according to the MEO configuration. This cost represents the government's bid to accomplish the commercial activity.

When all bids are received, the in-house cost estimate is compared to contractors' bids. A contract for the commercial activity is awarded if three conditions are met: (1) the contractor is judged by the government to be able to meet all of the government's quality, timeliness, and quantity standards; (2) the total cost of contract performance is less than the government's total estimate; and (3) the margin of difference by the contractor exceeds 10 percent of the government's personnel costs. This 10 percent margin is included in the cost comparison to take into account factors such as temporary decrease in efficiency and effectiveness, the cost of retained grade and pay, and other unpredictable risks that may occur as a result of the conversion to contract.

The cost of contract performance includes, in addition to the contractor's bid price, the government's estimated costs of severance pay, of

relocating and retraining the government's workers, and of administering the contract. If the conditions listed above are not met, the function will be retained in-house and be done by government workers, who must implement the MEO within 6 months of winning the bid. Affected parties can file an appeal as a safeguard to help ensure that the decision is equitable and in accordance with A-76 procedures.

What Types of Commercial Activities Are Studied?

DOD has studied a wide variety of commercial activities, from custodial operations to architecture and engineering services. As table 2.1 shows, DOD's studies have concentrated more on facilities, grounds, and utilities maintenance than on any other commercial activity. The table also shows that studies of base maintenance activities involving multiple functions produced the largest savings estimates.

DOD's experience with A-76 is the most extensive and well-documented among federal agencies. From fiscal year 1979 through the first quarter of fiscal year 1987 (December 1986), DOD completed 1,661 A-76 cost comparisons, and data from DOD indicate an estimated annual savings of about \$613 million. The savings are expressed in current dollars for each of the years during which the individual cost comparisons were completed. Table 2.1 lists the types of activities DOD has reviewed and the claimed savings achieved by completing cost studies.

Table 2.1: DOD Functions and Savings From A-76 Cost Comparisons, Ranked by Number of Studies (October 1, 1978 - December 31, 1986)

Dollars in thousands		
Function	Number of studies	Estimated dollar savings
Facilities/grounds/utilities maintenance	251	\$89,073
Custodial	201	26,196
Commissary/clothing store	145	20,170
Motorpool/vehicle maintenance	124	56,283
Multifunction/base maintenance	120	155,515
Supply/warehousing/distribution	109	31,783
Administrative telephone and communications	96	20,924
Equipment maintenance	82	49,475
Management/administrative support	81	8,968
Automated data processing	66	3,677
Audiovisual	65	18,645
Other	59	42,383
Fire protection/guard	54	7,870
Laundry/dry cleaning	50	12,554
Food service	35	27,196
Transport	29	25,993
Library	24	277
Mail and file	18	462
Printing	16	781
Education and training	14	11,402
Data entry	12	2,234
Health services	7	431
Architecture/engineering	2	56
Manufacturing	1	209
Social/community services	0	0
All functions	1,661	\$612,557

Note: Appendix I describes the types of functions included in each of the 25 categories studied.

Are All Activities Studied Contracted Out?

No. DOD's recent experience shows that about half of the cost studies have resulted in retaining the function in-house. Data from DOD show that of the 1,661 cost comparisons completed, 801 (48 percent) remained in-house. Table 2.2 shows the distribution of those functions retained in-house and those contracted out.

Chapter 2
The Evolution and Implementation of A-76

Table 2.2: Functions Retained In-House and Contracted Out as a Result of DOD A-76 Cost Studies and Estimated Cost Savings
(October 1, 1978 - December 31, 1986)

Dollars in thousands

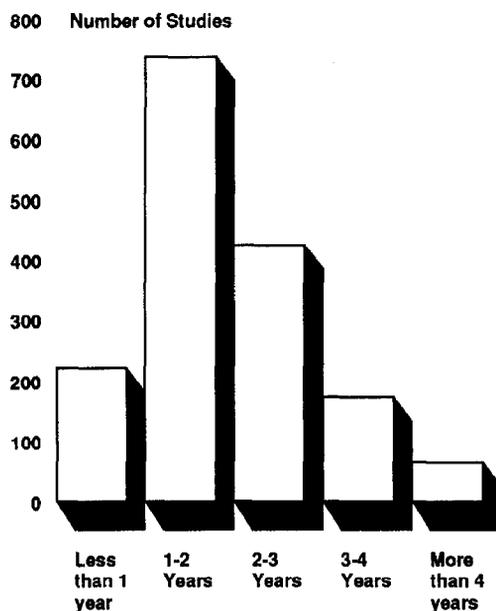
Function	Retained in-house		Contracted out	
	Studies	Savings	Studies	Savings
Facilities/grounds/utilities maintenance	122	\$34,782	129	\$54,291
Custodial	88	2,413	113	23,783
Motorpool/vehicle maintenance	85	22,935	39	33,348
Supply/warehousing/distribution	63	10,171	46	21,612
Multifunction/base maintenance	59	22,075	61	133,440
Administrative telephone and communications	48	5,304	48	15,620
Other	40	3,867	19	38,516
Automated data processing	38	575	28	3,102
Management/administrative support	38	2,702	43	6,266
Audiovisual	37	4,510	28	14,135
Fire protection/guard	34	1,766	20	6,104
Equipment maintenance	32	11,742	50	37,733
Transport	23	1,127	6	24,866
Library	18	176	6	101
Commissary/clothing store	16	75	129	20,095
Laundry/dry cleaning	14	1,261	36	11,293
Printing	13	601	3	180
Mail and file	12	156	6	306
Data entry	6	701	6	1,533
Health services	6	79	1	352
Food service	5	550	30	26,646
Architecture/engineering	2	56	0	0
Education and training	2	740	12	10,662
Manufacturing	0	0	1	209
Social/community services	0	0	0	0
Total	801	\$128,364	860	\$484,193

What Difficulties Are Encountered in Doing Cost Studies and Are There Corresponding Benefits?

The cost study process described earlier in this chapter often has taken years to complete and reportedly has reduced the morale and productivity of the federal employees whose jobs were at stake. DOD managers have testified that Circular A-76 is micromanagement of their operations and exceedingly disruptive to the labor force. In the long run, however, these managers have viewed A-76 as a worthwhile process for achieving greater efficiencies.

DOD's experience doing cost studies shows that the process can often be time-consuming, difficult, and stressful to both managers and employees. Since the inception of the A-76 concept, numerous revisions of the policy guidance for implementing A-76—made in part to achieve equity in the cost study methodology and process—have added to the time it takes to complete cost studies. A common criticism of the program is that the studies take too long. On average, it has taken DOD about 2 years to complete A-76 cost studies, and 40 percent have taken more than 2 years. Figure 2.2 shows the time taken to complete cost studies.

Figure 2.2: Time Taken to Complete DOD A-76 Cost Studies



Based on data available for 1,622 of the 1,661 cost studies DOD completed during the period October 1, 1978, to December 31, 1986.

Furthermore, the managers and employees whose functions are being studied are tasked to develop the PWS and MEO used to compete their in-house function with private sector competitors. Even when the cost comparison shows that federal employees can provide goods and services at less cost than a contractor operation, data from DOD show an estimated manpower reduction of about 16 percent of the employees in functions being studied.

Because the PWS is the basis for developing the MEO and cost comparison, it is important that the government describe its needs as precisely as possible in the work statement. However, preparing PWSS is still a relatively new task for many commercial activities personnel at the installation level, and the in-house staff have experienced difficulty precisely defining the standards of performance and quantity of workload that the government activity is providing and expects to provide in the future. Past audits have shown that tasks omitted from the PWS were later added to the contract, resulting in increased costs.

For example, in a 1984 report,² the Air Force Audit Agency identified 15 contracts (of the 31 reviewed) where contract modifications were made as a result of changes in the original work statement, resulting in contract modifications of about \$6.7 million over the initial contract amount. Of this \$6.7 million, \$3.8 million was due to errors in the PWSS for six contracts. However, costs would have increased for two of the contracts even if the commercial activity had remained in-house.

In a 1985 report,³ we reviewed a sample of 20 DOD functions that were converted to contractor performance. For 12 of the 20 functions, savings were reduced because of contract errors or ambiguities and additional costs resulting from recompeting contracts. Some savings, however, were still realized. Contract errors or ambiguities generally resulted from inadequate statements of work which contractors used as a basis to develop their bids.

In its 1984 report⁴ on commercial activities at 17 installations, the Army Inspector General (IG) found that only one installation inspected was preparing PWSS in accordance with OMB guidance. The IG staff found that

²U.S. Air Force, Fiscal Year 1980 A-76 Cost Comparisons and Service Contracts (Project 3050111), January 31, 1984.

³DOD Functions Contracted Out Under OMB Circular A-76: Contract Cost Increases and the Effects on Federal Employees (GAO/NSIAD-85-49), Apr. 15, 1985.

⁴U.S. Army, Report of the Commercial Activities Program, 1984.

the PWSS reviewed lacked specificity of requirements and tasks, and had incomplete, unreasonable, or missing acceptable quality levels, tolerances, and performance standards. The Army Inspector General report attributed problems in PWS preparation to several factors, including

- difficulties with guidance contained in OMB's Office of Federal Procurement Policy Pamphlet Number 4, which is a supplement to Circular A-76;
- the lack of a systematic method to ensure that lessons learned from previous mistakes were being disseminated;
- the inability of any individual in the organization to describe all the functions being done;
- turbulence in the commercial activities offices, such as job burnout caused by the frustration of dealing with implementation of a program that had such a negative image;
- the placement of the burden of developing highly technical studies and estimates at the level least staffed from a grade and expertise standpoint; and
- the absence of management information systems to collect accurate work load data.

The Inspector General report recommended, among other things, that the Army develop and implement a system to monitor and report the progress of installations in implementing the commercial activities program, and capitalize on experience and lessons learned at installations. According to Army headquarters commercial activities staff, the Army has since implemented that recommendation.

During the cost study process, some employees have searched for other job opportunities, leaving managers with the task of accomplishing essential functions with fewer workers. Our recent review of an A-76 contract illustrates the difficulties encountered by managers as a result of an A-76 cost study.

At one installation visited, the cost study was announced in June 1981. The affected federal employees started leaving for other jobs at the outset of the cost study, and the permanent workforce continued to decline throughout the study period. The backlog of maintenance work increased to such an extent that the government had to hire the contractor before the January 1985 contract start date on an interim basis to supplement the remaining in-house workforce. The negotiated price of the interim contract was more than \$1 million. In addition, the government had to pay the contractor about \$550,000 more than the original

contract price during the first year to cover backlogged work not previously anticipated.

DOD officials who have done A-76 cost studies say the process creates disincentives, is disruptive to both employees and the organization, and results in losing management flexibility. In recent testimony before the President's Commission on Privatization, one commander of a Naval installation said,

"The development of definitive Performance Work Statements and effective quality assurance plans for each area of study requires an inordinate commitment of time and resources at every level in the organization. Day to day productivity is impaired, morale (especially in the area of study) is degraded, and service to the fleet is reduced while essential personnel at all levels are tied up executing the commercial activity program requirements."

Despite the problems noted by the DOD representatives at the Commission hearings, each DOD witness supported the underlying concept of A-76. They provided examples of in-house and contract "winners" which are currently providing quality services at their installations. The senior DOD official present at the hearings cited estimated savings of 30 percent of the cost of operations as a result of the cost studies, regardless of whether the functions were retained in-house or contracted with the private sector.

However, these same witnesses acknowledged that the benefits of the program are accompanied by the difficulties of executing the process. As one witness summarized A-76, "This is a very worthwhile program here. The execution of it is an exhausting, emotional, unhappy experience for the commander and for all of the individuals involved in it."

What Happens to Employees When a Commercial Activity Is Contracted Out?

In our prior work, we determined that the majority of federal workers whose jobs had been contracted out found other federal employment, most often at the same installation. Of those who obtained other government positions, about 56 percent received lower grades, and about 44 percent received the same or higher grade.

OMB Circular A-76 requires agencies to exert maximum effort to find available positions for those employees displaced by contracting. Agencies are directed to give these employees priority consideration for available positions within the agency, to pay training and relocation costs when they will contribute to placement, and to coordinate with

other agencies to assist employees in finding positions. Agencies also are required to ensure that contractors give priority consideration for employment to displaced employees.

In two 1985 reports,⁵ we reviewed the effects of contracting out on 2,535 government employees in a random sample of 31 (of 140) functions converted to contract during fiscal year 1983. Our results showed that 86 percent obtained other government jobs or retired, and about half of the remaining employees went to work for the contractor. Table 2.3 shows the disposition of the 2,535 employees.

⁵DOD Functions Contracted Out Under OMB Circular A-76: Costs and Status Of Certain Displaced Employees (GAO/NSIAD-85-90), July 12, 1985. DOD Functions Contracted Out Under OMB Circular A-76: Contract Cost Increases and the Effects on Federal Employees (GAO/NSIAD-85-49), Apr. 15, 1985.

Table 2.3: Government Workers Displaced by Contracting Out at 31 Functions Reviewed

	Number of employees	Total
Obtained government positions:		
At the same installation:		
In the same grade	618	
In a lower grade ^a	896	
In a higher grade	19	
At another installation (no relocation):		
In the same grade	109	
In a lower grade	122	
In a higher grade	5	
At another installation (relocation):		
In the same grade	79	
In a lower grade	31	
In a higher grade	2	
		1,881
Retired:		
Regular	182	
Early	116	
		298
Resigned		
		53
Employed by contractor		
		171
Involuntarily separated		
		129
Placed in nonfederal position		
		1
Discharged during probation period		
		1
Deceased		
		1
		2,535

^aEmployees who are placed in lower graded jobs normally receive grade protection for 2 years and pay protection forever. After 2 years, pay is increased at only 50 percent of all pay raises until pay is equal to that of the new grade.

DOD's March 12, 1984, report to Congress on the commercial activities program showed results similar to these. That report showed that of 9,650 employees affected, 9,035, or 94 percent, were either placed in other government jobs or had retired. Of the remaining 615, about half obtained employment with the contractors.

Those employees in our study who were involuntarily separated shared various experiences. We mailed questionnaires to the 129 employees who were involuntarily separated,⁶ and received 94 responses. These responses showed that

⁶This represents 5 percent of the 2,535 employees in the random sample.

- 53 of the 94 individuals had received unemployment compensation and/or public assistance;
- 62 of the 94 individuals were employed at the time they responded to our questionnaire, and 49 of these were employed with the federal government; and
- 32 of the 94 individuals were unemployed at the time they responded to our questionnaire, and 26 of these had not been employed since their involuntary separation.

Those in our study who went to work for contractors reported mixed experiences. We sent questionnaires to these 171 employees and received 130 responses. These responses showed that

- 103 individuals (79 percent) were doing the same type of work they had done as federal employees;
- 69 individuals (53 percent) received lower wages from the contractors than they had received from the government;
- most individuals believed they had better benefits as government employees than they received as contractor employees (for example, retirement, sick leave, and vacation benefits);
- 114 individuals (88 percent) had been at least somewhat satisfied with their federal jobs, and 51 (39 percent) reported being at least somewhat satisfied with their contractor positions.

During our recent review of A-76 contracts at three Army installations, we found similar statistics that support the findings in our 1985 report. For one function we reviewed, 76 percent of the government employees were placed in other government positions after the activity had been contracted out. Three employees were separated, 4 others resigned, 24 employees retired, and 1 employee was hired by the contractor. At a second location we visited, 37 employees retired early, 42 employees found other government positions at the same grade, 89 employees were to be reassigned within the competitive area with no change in grade or pay, and 112 employees were to receive jobs at lower grades, but were eligible to retain their grade/pay for 2 years.

The third location we visited was a unique situation. The controversy and concerns raised by the announcement of the results of the cost study at this installation prompted the Under Secretary of the Army to announce that no federal employees would be displaced by the A-76 process at the installation. The cost study indicated that the commercial activity would be more cost effective as a contractor operation. The federal workforce that was displaced consisted of 876 employees. As of

September 1987, 726 had been reassigned within the installation, and 115 had declined reassignment, retired, or transferred to other DOD installations; the remaining 35 employees had yet to be placed at the installation.

What Are the Potential Cost Savings From the A-76 Program?

During the past few years, several estimates of the potential cost savings from implementing A-76 have been provided by a variety of sources, and the estimates ranged from \$500 million to \$4.6 billion per year. The estimates differ primarily because of different assumptions regarding the number of commercial-type positions that would be studied under A-76, and assumptions regarding wider implementation of the program.

In December 1986, we issued a report⁷ which identified 10 estimates of long-term annual cost savings possible with governmentwide implementation of A-76. The estimates, shown in table 2.4, were prepared by the Congressional Budget Office (CBO), the National Academy of Public Administration (NAPA), the President's Private Sector Survey on Cost Control (PPSSCC), OMB, and the Heritage Foundation.

⁷Potential Savings From Private Sector Cost Comparisons (GAO/GGD-87-30), Dec. 31, 1986.

Table 2.4: Estimates of Long-Term Annual Savings With A-76 Implemented Governmentwide

Current dollars in billions			
Analysis (year)	Savings	Full-time commercial type positions	Positions converted to contract
CBO (1982)			
I	\$0.9	202,000 ^a	165,000
II	0.9	202,000 ^a	135,000
III	1.2	495,000	185,000
IV	0.5	202,000 ^a	95,000
NAPA (1983)	1.0	500,000	^b
OMB (1984)			
1984 Inventory	1.0	226,000 ^a	113,000 ^c
Expanded Inventory	2.0-3.0	418,000 ^a	209,000 ^c
PPSSCC (1984)			
Personnel Task Force	1.0	^b	132,644
Management Office	4.6	500,000	400,000
Heritage Foundation (1986)	3.0	1,000,000	500,000 ^c

^aExcludes about 300,000 positions exempt from A-76.

^bNo figure provided in cited report.

^cData obtained from reporting organization, but not included in the published report.

As the table shows, the number of full-time commercial positions to be studied varied among the organizations which provided the estimates. For example, OMB's estimate of positions studied initially considered 226,000 largely blue-collar positions. Its "Expanded Inventory" estimate of 418,000 positions to be studied included white-collar positions that at that time were not considered in federal agencies' inventories of activities covered by A-76. Similarly, the Heritage Foundation's estimate of one million positions available to be studied assumed that all positions then restricted⁸ from contracting out and positions in the Postal Service would be subject to A-76.

CBO's 1982 savings estimates ranged from \$500 million to \$1.2 billion. This variation was based on four different options which could be employed. For example, if OMB maintained its A-76 program at 1982 levels, CBO estimated \$900 million could be saved annually. On the other

⁸Over time, Congress has enacted legislation prohibiting the contracting out of specific functions. For example, Public Law 98-525, dated October 19, 1984, prohibits DOD from contracting out core logistics functions, which include activities such as depot maintenance of aircraft and ships. According to OMB, this restriction affects about 75,000 positions and potential savings estimated at \$1.5 billion annually. Appendix II contains a list of other congressional restrictions.

hand, if legislative restrictions on contracting out by DOD and the Veterans Administration were reduced, CBO estimated that \$1.2 billion could be saved annually.

In June 1987, CBO published a report that provided new cost savings estimates. Table 2.5 shows that the estimates varied significantly, again because CBO proposed different options for several levels of program effort.

Table 2.5: Average Annual Cost and Job Reductions From Options for the A-76 Program, 1988-1992

	Job reductions	Savings (In millions of 1988 dollars)
Current Program	7,200	\$325
Option I	14,400	650
Option II	20,000	305
Option III	4,000	430

Source: Congressional Budget Office.

Note: Dollar amounts rounded to the nearest \$5 million. Estimates represent the full effects of each option rather than changes from the current program. The estimates assume A-76 reviews occur evenly throughout a year and that savings from each year's reviews continue through the end of the 5-year estimating period.

Option I assumes that Congress could choose to expand contracting out by increasing the number of A-76 reviews that agencies do annually. Option II assumes that agencies would no longer be required to do cost comparisons, thus shifting activities directly to private firms regardless of cost. Option III assumes that Congress would suspend contracting out for 5 years, but that management reviews would increase to a level covering 20,000 jobs annually, and that savings from management improvements would average 20 percent, thus freeing up 4,000 federal jobs annually.

What Action Has Been Taken to Increase Agencies' Responsiveness to A-76 and What Is the Short-Term Likelihood of Increased Agency Activity?

On November 19, 1987, the President signed Executive Order 12615—the first such Order ever issued regarding A-76—which places renewed emphasis on the A-76 program. OMB has taken an active role in an effort to prompt agencies to respond to this renewed emphasis. It is too early to determine the full effect the new Executive Order will have on agencies' implementation of the A-76 program. However, early indications are that, in the short term, agencies may not be able to achieve the new study goals set forth by OMB.

The new Executive Order directs agencies to identify A-76 study goals and anticipated savings in their annual budget submissions. According to OMB officials, agencies' submissions were reduced at the outset of the budget cycle to reflect before-the-fact A-76 savings, rather than waiting for agencies' A-76 cost studies to be completed. However, in recognition that A-76 is a productivity enhancing program, OMB will allow agencies to retain a portion of their first-year savings to reward those employees covered by the studies for their productivity efforts.

OMB is developing a tracking system to monitor agencies' progress in implementing the Executive Order's goals. The tracking system will generate quarterly reports which will serve as "report cards" on agencies' progress. The system is also intended to ensure that the productivity incentive funds are used for rewarding employees and managers.

The new Executive Order also increased the number of commercial activities positions agencies must study each year. Beginning in fiscal year 1989, agencies must annually study positions identified as eligible for contracting out at a rate of not less than 3 percent of their total civilian population. For fiscal year 1989 and beyond, this translates into about 60,000 positions governmentwide per year. Based on agencies' past progress in meeting OMB's goals, and given the fact that cost studies often take more than 2 years to complete, it is unlikely that the new goals will be met, especially in the short term.

From fiscal years 1984 through 1987, agencies studied, on average, 26 percent of the commercial activities positions that OMB had targeted for study. DOD studied the most positions during this time period, while agencies such as the Departments of Justice and State conducted no studies. Table 2.6 shows the number of full-time equivalent (FTE) positions studied in relation to OMB's goals during this 4-year period.

Table 2.6: OMB's FTE Study Goals and Agencies' Achievements (Fiscal Years 1984 Through 1987)

Agency	Goal (FTEs to be studied)	Actual (FTEs studied)	Percent
Agriculture	9,487	902	10
AID	310	0	0
Commerce	7,644	890	12
Corps of Engineers	4,379	295	7
Defense	61,000	30,287	50
Education	431	13	3
Energy	710	252	35
EPA	649	27	4
FEMA	107	0	0
GSA	7,938	2,887	36
HHS	8,378	445	5
HUD	714	0	0
Interior	10,284	197	2
Justice	1,547	0	0
Labor	547	0	0
NASA	771	0	0
OPM	1,523	25	2
State	622	0	0
Transportation	10,735	2,161	20
Treasury	11,212	204	2
U.S. Information Agency	184	0	0
VA	10,808	341	3
Total:	149,980	38,926	26

Source: Office of Management and Budget

OMB recently estimated that there are about 750,000 full-time jobs in the government that provide commercial services. According to the statistics in table 2.6, agencies annually studied an average of 9,732 positions during the 4-year period. Because the new rate of study—60,000 positions annually—is more than a six-fold increase over agencies' historical study rate, agencies will have to make a radical departure from past experience to meet the new goals.

In the past, agencies were not penalized for not achieving OMB's goals, and government employees had no incentive to complete A-76 cost studies in a timely manner. The new Executive Order may change this attitude, however, because agencies' budget submissions will be reduced at the outset of the budget cycle to reflect efficiencies from A-76, but before cost studies are actually conducted. Further, the productivity

“bonus” provision incorporated in the new Executive Order may encourage greater commitment from agency managers and employees.

Agency Comments and Our Evaluation

DOD and OMB commented on a draft of this report. DOD concurred with the report’s findings. Likewise, OMB said that the report generally gives an accurate overview of DOD’s implementation of OMB Circular A-76. However, OMB believed that the report did not adequately evaluate the reactions of government managers and employees to the program’s management requirements which, in OMB’s opinion, are reasonable. It is OMB’s view that a government manager’s job is to periodically define the tasks to be done, the standards to be met, and to operate in the most cost effective manner possible. Accordingly, OMB believed that the report should discuss the reasonableness of the A-76 management requirements and whether or not the problems in implementing these requirements within DOD are created by management or are, in fact, due to the A-76 process.

We do not believe the problems in implementing the requirements of A-76 can be solely attributed to either management practices or the cost study process itself, as the report notes difficulties encountered in both. For example, chapter 2 of the report points out that as A-76 policy evolved, the emphasis shifted from one of almost outright reliance on the private sector for goods and services, to the current emphasis on economy and efficiency. To make the latter determination involves agencies doing cost studies following detailed guidance provided by OMB. Numerous revisions to A-76—as the addition of a comprehensive cost comparison handbook and the inclusion of an appeals process—were made in an attempt to achieve greater equity in the cost study process. Compliance with the procedures and guidance in completing equitable cost studies takes time. In this regard, some of the problems in implementing the requirements of A-76 can be attributed to the process.

However, not all managers are skilled in the detailed requirements and procedures for doing cost studies, and are not responsible for doing such studies on a routine basis. The individuals responsible for doing cost studies are often at very low levels in the functional area being studied, and do not always have accurate work load statistics available to precisely define the performance standards in the work statements. Thus, problems in implementing A-76 requirements also may be attributed to agencies’ management of the program.

Primary DOD Functions Included in 25 Categories of Functions

Administrative telephone and communications. Administrative telephone services, telecommunication centers, communications systems installation, and intermediate repair of communications equipment.

Architecture and engineering. Architecture, engineering, and technical services.

Audiovisual. Visual information support, audiovisual production, technical documentation, electronic media, and audiovisual design services.

Automated data processing (ADP). Data processing, operation of ADP equipment, ADP production control and customer service, data transmission, maintenance of ADP equipment, systems design development and programming, and applications systems development and maintenance.

Commissary/clothing store. Commissary store operation, including shelf stocking, check out, meat processing, produce processing, storage, and issue. Clothing store operation.

Custodial. Janitor, pest management, and refuse collection.

Data entry. Data transcription/data entry and punch card processing.

Education and training. Operation of training devices and simulators, recruit training, officer training, specialized skills training, flight training, professional development, civilian education and training, dependent education, and other training.

Equipment maintenance. Intermediate and depot level maintenance of various equipment including aircraft, missiles, vessels, combat vehicles, and armaments, as well as railway, industrial, dining facility, medical, dental, and other equipment.

Facilities/grounds/utilities maintenance. Maintenance and repair of buildings and structures, including roofing, glazing, tiling, painting, flooring, electrical, plumbing, heating, and air conditioning. Maintenance of grounds and railway, waterway, and waterfront facilities. Operation and maintenance of electrical plants and systems, heating plants and systems, water plants and systems, sewage and waste plants, air conditioning and refrigeration plants, and other utilities.

Fire protection and guard. Fire prevention, protection, and guard services.

Food service. Food preparation and administration, nutritional care, and food and bakery pro

Health services. Various medical, dental, pharmacy, and related services.

Laundry and dry cleaning. Laundry and dry cleaning services.

Library. Reference, technical, audiovisual, automated data processing media, and recreational libraries.

Mail and file. Internal mail and messenger, publication distribution, and visual information depositories.

Management/administrative support. Advertising and public relations, finance and payroll, debt collection, word processing, translation, auditing, court reporting, cost-benefit analysis, statistical analysis, scientific studies, management studies, and other special studies.

Manufacturing. Products fabricated in-house including ordnance equipment, containers, chemicals, lumber, construction, rubber and plastic goods, optical products, sheet metal, foundry, and other products.

Motorpool/vehicle maintenance. Maintenance of noncombat vehicles, installation bus services, ambulance service, and other motor vehicle operation. Upholstery, glass, body, mechanical, and other vehicle maintenance services.

Printing. Printing and reproduction.

Social/community services. Various recreational, individual, and family services.

Supply/warehousing/distribution. Base supply operations, ocean terminal operation, cargo handling, lumber operations, material handling equipment operation, crane operation, storage, receipt, packing and crating, shipping, preservation and packaging, and acceptance testing.

Transport. Transportation management and administration; materiel movement; personnel movement; personal property activities; unit movements; and air, water, rail transportation, and fueling services.

Appendix I
Primary DOD Functions Included in 25
Categories of Functions

Other. Undertaker and funeral services; management of research, development, testing, and evaluation; furniture, office equipment, military clothing, scrap metal, and excess property management; and mapping and charting.

Multifunction/base maintenance. Any combination of activities in two or more of the above-listed categories of functions.

Selected Congressional Restrictions That Limit Wider Implementation of A-76

Agriculture

- Employment floors are set at 12,675 for the Farmers Home Administration; 2,550 for the Agricultural Stabilization and Conservation Service; and 14,177 for the Soil Conservation Service. As these floors are close to existing employment levels, privatization is all but eliminated.

Commerce

- The Economic Development Administration is required to fill and maintain 49 positions as Economic Development Representatives.
- The National Technical Information Service is prohibited from contracting activities not now done by private industry without specific legislation.
- The National Oceanic and Atmospheric Administration is prohibited from contracting any activity until a 30-day notice is given to Congress and all supporting documentation is submitted.

Department of Defense

- The Army is required to maintain civilian personnel strengths at Army depots doing communications-electronic depot maintenance at a number above the strengths on September 30, 1985.
- Contracting out is forbidden for functions not already performed under contract at the Crane Army Ammunition Activity in Crane, Indiana, or the McAlester Army Ammunition Plant in McAlester, Oklahoma.
- The Corps of Engineers is prohibited from doing A-76 studies at any reservoirs in Mississippi.
- The Army is prohibited from contracting more than 40 percent of depot maintenance functions.

General Services Administration

- GSA is prohibited from contracting out guard, elevator operator, messenger, and custodian functions done by employees who are preference eligible veterans, unless it is to a sheltered workshop for the severely handicapped.

Housing and Urban Development

- The Public and Indian Housing program is required to maintain a minimum average staffing level of 1,270, regardless of need.

Interior

- The National Park Service, Fish and Wildlife Service, and Bureau of Land Management are prohibited until fiscal year 1989 from comparing

**Appendix II
Selected Congressional Restrictions That
Limit Wider Implementation of A-76**

costs between the private sector and federal employees currently doing activities until Congress enacts an appropriation for a contract.

Labor

- The Job Corps is forbidden to contract out any Civilian Conservation Center not under a contract by September 1, 1984.
-

Railroad Retirement Board

- In the Railroad Unemployment Insurance trust fund, a floor of 336 full-time equivalent employees is set. In the Rail Industry Pension trust fund, a floor of 1,217 FTES is set.
-

Transportation

- Each year, the Coast Guard must submit to Congress a list of proposed A-76 studies and must wait 30 days before proceeding. Coast Guard must provide Congress with a list of core logistics activities that will be exempt from A-76 before completing studies in progress.
 - The Federal Aviation Administration is prohibited from doing even a pilot test of contract maintenance for national airways system facilities.
-

Treasury

- The Internal Revenue Service is required to maintain the number of positions allocated to taxpayer service at or above the 1984 level.
-

Veterans Administration

- VA must maintain medical care employment at an average of 194,140 FTES.
 - The Department of Medicine and Surgery is prohibited from contracting out activities classified by VA as either direct patient care or incident to direct patient care. This includes support operations such as food service.
-

Comments From the Department of Defense



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-8000

PRODUCTION AND
LOGISTICS

AUG 15 1988

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "FEDERAL PRODUCTIVITY: DoD's Experience in Contracting Out Commercially Available Activities," dated July 12, 1988 (GAO Code 410535/OSD Case 7705.)

The DoD has reviewed the report, concurs with the GAO findings and conclusions. The Department appreciates the opportunity to comment on this draft report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Merle Freitag".

Merle Freitag, MG, USA
Military Deputy

Comments From the Office of Management and Budget

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

AUG 18 1988

Mr. Richard L. Fogel
Assistant Comptroller General
United States General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

Thank you for the opportunity to comment on the draft report, entitled FEDERAL PRODUCTIVITY: DOD's Experience in Contracting Out Commercially Available Activities.

While the draft report generally gives an accurate overview of DOD's implementation of the OMB Circular No. A-76 process, we believe it fails to evaluate adequately the reactions of Government managers and employees to the programs' management requirements. Managers and employees may well find the basic management tasks in A-76, defining their organization's work requirements in terms of measurable performance standards and developing a streamlined workforce configuration, to be "burdensome" as stated in the report. That does not mean, however, that the requirements themselves are unreasonable. In our view, the key parts of a manager's job are to periodically define the tasks to be performed, the standards to be met and to operate in the most cost effective manner possible.

The draft report gives the impression that these basic management tasks are unreasonable and that federal managers are incapable of meeting them without significant disruption to mission accomplishment, and the lowering of employees' morale and productivity. To be complete, we believe, the report should discuss the reasonableness of the A-76 management requirements and whether or not the problems in implementing these requirements within DOD are created by management or are, in fact, due to A-76.

Our specific comments on the text of the report are contained in the attachment. If you believe that a meeting would be appropriate to discuss our comments, please contact David Muzio at 395-3300. Thank you again for the opportunity to comment.

Sincerely,

Allan V. Burman
Deputy Administrator
and Acting Administrator

Enclosure

Discussed on pp. 44-46.

SPECIFIC COMMENTS

EXECUTIVE SUMMARY

Now on p. 2.
See comment 1.

Page 2, BACKGROUND, line 2.: Add a new step one, "1) define the work requirements in terms of measurable performance standards;" renumber step 1 to step 2 and change to read, "2) determine the most efficient way to provide commercial activities using the federal workforce to meet the defined performance standards;" renumber steps 2 and 3 to steps 3 and 4.

The A-76 process stresses quality before cost and it is important, in our opinion, that the requirement for managers to define their work in terms of measurable performance standards be included in a description of the process.

Now on p. 3.
See comment 2.

Page 3, RESULTS IN BRIEF, Para 1, line 7: After the word "objectives" delete the remainder of the sentence and insert, "...of introducing competition into the Government's management system to seek efficiencies and cost savings. They also realize that after worker goals are established in organizations and the workers know they will be held accountable to them, the organizations are more productive and secure a higher level of employee morale and loyalty."

It is important to cite the findings of the DOD report, "How Winners Win" to give a complete picture of why some managers support the A-76 process.

Now on p. 3.
See comment 3.

Page 3, RESULTS IN BRIEF, Para 2: This paragraph is an accurate statement of the situation, but nowhere in the report is there any comment on why A-76 studies have resulted in this situation and whether the problem is a result of the A-76 process or agency management failures.

Now on p. 3.
See comment 3.

Page 3, RESULTS IN BRIEF, Para 3: Add to the last line, "...unless the agencies adopt a more disciplined management attitude to conducting the studies."

Now on p. 3.
See comment 5.

Page 4, GAO ANALYSIS, Para 1 under Problems, line 6: There should be some explanation as to why managers are not skilled in defining their work requirements accurately, why they will never again be subject to these most basic management requirements, and why these are extra duties for a manager.

It is our opinion that managers are hired specifically, not as an extra duty, to clearly define the organization's work requirements, to set standards of performance, to monitor employee and organization performance, to continually look for ways to improve efficiency and effectiveness of the operations for which

they are responsible and to operate in the most cost effective manner possible. A manager that has met these performance standards will not encounter any new management requirements in an A-76 competition.

Now on p. 4.
See comment 6.

Page 4, GAO ANALYSIS, Para 2 under Problems: The analysis should address the reasonableness of the time it takes to do A-76 competitions. The A-76 process has shown that commercial activities are overstaffed by about 30 percent when the study is started. The discussion of the fact that some employees sought positions elsewhere should contain some statistics on the number or percent of employees who left early and whether there was a serious problem with maintaining the workload during the study.

Now on p. 4.
See comment 7.

Page 4, GAO ANALYSIS, Para 3 under Problems: The Logistics Management Institute report for DOD "How Winners Win" published in September 1984 indicates that employee morale and productivity are improved when the employees are subject to a set of employee goals, maybe for the first time, after an A-76 study. We believe the findings of the "How Winners Win" study should be included in this report. In addition, if managers see the A-76 process as disruptive, did they have any suggestions for improvement.

Now on p. 5.
See comment 8.

Page 5, GAO ANALYSIS, Para 2 under Program Goals, line 13: Insert between the words "experience" and "it", "... and manage this program in an aggressive manner,...".

REPORT

Now on p. 8.
See comment 9.

Page 1, Para 3, line 2: Add between the words "it reduces" the phrase "...is a basic management improvement program that is long overdue as it requires a more disciplined approach to management and also..."

It must be clearly understood that the A-76 program is designed first to improve the quality of the service provided by improving the Government's management. The fact that better management normally results in lower costs is a welcome secondary benefit of the program. However, in this age of high deficits, the cost savings aspect of the program gets the most publicity.

Now on p. 10.
See comment 10.

Page 6, Para 1, line 2: After the word "Government" and before the word "and" insert "... operated commercial activities..."

Now on p. 11.
See comment 11.

Page 6, Para 2, line 6: After the word "also" delete the remainder of the sentence and insert "...introduced a more disciplined management approach to Government operations. The revision specified that agencies should define their

Appendix IV
Comments From the Office of Management
and Budget

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needs for each commercial activity in terms of measurable performance standards, not in terms of "how" the Government does the work, and develop a formal measurement system to ensure quality service, whether the Government obtains the service with Government employees or a competitively selected contractor".

Now on p. 13.
See comment 12.

Page 7, last para, line 1: After the word "identify" delete all words up to "and" on line 1, page 8, and insert "...all activities being performed by the Government that could be done by non-federal sources,..."

Now on p. 13.
See comment 13.

Page 8, line 2: Delete the sentence beginning with "As" and insert, "As the initial step in the actual A-76 study process, the Government must precisely define the performance standards (quality, timeliness, quantity) of the work it is doing and expects to do over the next 3-5 years. This is the first basic step for any well managed operation -- Government or private."

Now on p. 13.
See comment 14.

Page 8, Para 1: At the end of this paragraph add the following sentence. "The PWS is the Government's new management plan for the service. It is the mechanism that allows both Government and contractor managers to adopt innovative and flexible management techniques to meet the performance standards. It frees them from the "Government way" of doing the work and allows for a major portion of the cost savings."

Now on p. 13.
See comment 15.

Page 8, Para 2, lines 1 and 3: On line one between the words "that" and "commercial" add the word "Government". On line three delete the words between "workforce" and "to", and insert "...could be optimally organized and equipped..."

Now on p. 13.
See comment 16.

Page 8, Para 3, line 3: After the word "if", change the word "two" to "three". Renumber conditions 1 and 2 to 2 and 3 and add a new condition 1, "1)the contractor is judged by the Government to be able to meet all of the Government's quality, timeliness and quantity standards;"

Now on p. 13.
See comment 17.

Page 9, line 3: Add a new second sentence, "The cost of contract performance includes, in addition to the contractor's bid price, the Government's estimated costs of severance pay, relocation and retraining the Government's workers, and the cost of administering the contract." Change the first word of second sentence from "This" to "The".

Now on p. 17.
See comment 18.

Page 14, Para 1, line 2: Delete all of the sentence after "...complete" and insert, "...and has reportedly reduced the morale temporarily of the federal employees whose jobs are at stake."

Appendix IV
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As written, the statement is a conclusion without any evidence. If used properly, competition with the private sector can increase morale and productivity. The "How Winners Win" report discusses this point. This sentence also indicates that federal workers feel that they should not be subject to the same competitive pressures as their private sector counterparts.

Now on p. 17.
See comment 19.

Page 14, Para 1, line 4: The statement that A-76 represents micromanagement of DOD operations and is exceedingly disruptive to the labor force needs some comment by GAO. The fact is, A-76 only asks the manager to periodically define the organization's mission and performance standards to meet the mission and to review the existing method of operation to determine if there may be a more cost effective way of operation. The manager is free to describe the mission and standards and to implement any kind of efficiencies he/she desires. Asking an agency to periodically conduct a cost benefit analysis of its operations is not micromanagement. The GAO should address the question of how a manager should manage and budget if a manager does not know what the organization does, what its standards are, and what is the most cost effective means of operating.

Now on p. 17.
See comment 20.

Page 14, Para 1, line 8: Add the following to the end of this paragraph, "The process has demonstrated to senior managers that, without competition, the Government does not operate in a cost effective manner. The program has shown that the work that is competed can be done at about 30 percent less cost without a loss of quality service. A report by the Logistics Management Institute, entitled How Winners Win, states that employees also exhibit better morale and show a higher level of productivity when organizations adopt worker goals and hold workers accountable to them."

Now on p. 17.
See comment 21.

Page 14, Para 2, line 3: Delete the second sentence and insert the following, "Revisions to the Circular in 1983-- made in an attempt to ensure that the Government would be more competitive -- have, according to DOD managers, added to the time it takes to complete cost studies."

The change in the 1983 Circular that allegedly added to the time of the studies was the mandatory requirement for the accomplishment of the management study to improve the Government's efficiency before competing with the private sector. Other changes in the cost area actually eliminated some requirements for the Government to compute all of its costs for inclusion in the cost comparison. These cost changes simplified the process for the Government and gave the Government a significant additional cost advantage to retain work in-house. Overall, the 1983 Circular should not have added

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to the time it should reasonably take to complete a cost comparison.

Now on p. 17.
See comment 22.

Page 14, Para 2, line 9: The word "needed" should be changed to "taken".

It is OMB's opinion that it is not reasonable for the cost studies to take the time they are taking. We believe that GAO should comment on the time aspect. Is it reasonable for an organization to need two or more years to define its mission and performance standards and to conduct a review of its method of operations to seek efficiencies? What has management been doing before the cost study? GAO should comment on how the process could be done in a more timely manner. What management changes should be made?

Now on p. 18.
See comment 23.

Page 15, Para 1, line 1: The first sentence does not lead to a conclusion. Is the fact that the local level people are tasked with developing the PWS and MEO a cause of delay in the process as discussed in the preceding paragraph or should these people not be given this tasking? The next sentence does not seem to fit with the first sentence.

Now on p. 18.
See comment 24.

Page 16, Para 1, line 7: Delete the words "government's actual needs" and insert the following, "...standards of performance and quantity of workload that the Government activity is providing and expects to provide in the future."

Past audits have shown that the workload omitted would have added to the Government's costs if the Government had won the competition. If this statement means that the Government would not have incurred additional costs if it had won the competition then some discussion should be included on whether the Government was bidding on the work described in the PWS or on some other basis. In addition, some discussion should be made on whether the tasks omitted from the PWS's have actually caused a serious cost or performance problem, and whether savings are being achieved.

Now on p. 18.
See comment 25.

Page 16, Para 2: Preparing PWSs should no longer be a "relatively new task." DOD has been doing them since the late 1970's and they are taught in management courses throughout the Department. The evidence to prove the case is over four years old. Did the Army Inspector General report that is used as evidence of the problem discuss why there was a problem with the PWSs and recommend any solutions? These should be discussed.

Now on p. 19.
See comment 26.

Page 17, Para 1: The A-76 process has shown that most organizations are significantly overstaffed before the study

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is started. This paragraph says that some employees have searched for other jobs. The relative seriousness of the problem for the program should be discussed.

Now on p. 19.
See comment 27.

Page 17, Para 2: This paragraph should also address how much the organization saved by the early departure of employees. Did more people depart early than would have been necessary to implement the MEO? As written, this paragraph implies that the workforce started departing in June 1981. In fact, the workforce was complete, with few vacancies, at the time of the cost comparison. When the cost comparison results were revealed to support a contract decision, the workforce then started to depart. Fort Belvoir had ample employees to do the work of the performance work statement until the conversion to contract was delayed. The point to be drawn is that delay in converting to contract served only to hurt the installation, the workers, and the contractor.

Now on p. 20.
See comment 28.

Pages 17 and 18, last para on 17 and para 1 and 3 on 18: These two paragraphs discuss how difficult this process is for senior managers at DOD installations. There should be some discussion of why the implementation of a thorough management review of the operations, using good management principles, should be so traumatic for installation managers. Is the process at fault or is there some other reason? The Navy has over 5,100 people in the management analyst and program analyst job series whose job is to assist managers define their missions and develop more efficient organizations. In addition the Navy has special A-76 teams that are available to assist local managers conduct cost comparisons. How can service to the fleet be impaired while the activity is defining its standards? If it does not have standards of service to the fleet, how does it know that developing standards reduces service? Are these witnesses saying that the taxpayer should accept a Government that is unwilling or unable to define its work and conduct efficiency reviews of its internal operations? One witness stated that the program is very worthwhile, but it is an exhausting, emotional, unhappy experience for all involved. This report should discuss whether the benefits derived from the program actually offset the difficulties in getting good management from Government managers.

Now on p. 23.
See comment 29.

Page 22, Para 2: For each response summary, restate the percent to insure that the numbers are placed in perspective. Thus, "(56 percent)" should read, "(56 percent of this sample and 2 percent of the total survey)."

Now on p. 22.
See comment 30.

Page 24, Para 1, line 4: The sentence as written is not accurate. Employees who are placed in lower graded jobs normally receive grade protection for two years, and pay protection forever. Employees placed in a lower graded job

retain their grade (and pay) for two years. After two years pay is increased at only 50 percent of all pay raises until pay is equal to that of the new grade.

Page 24, Para 2, lines 2-3: This paragraph discusses Redstone Arsenal. The controversy and concern was not over "the announcement of a cost study." The controversy was over the announcement of the results of the cost study, the conversion to contract operations. Further, as written, it appears that the GAO views such personnel practices as acceptable. After two years, 35 employees are still without actual jobs but, the taxpayer is still paying their salaries.

Now on p. 23.
See comment 31.

The following are additional GAO comments on the Office of Management and Budget's letter dated August 18, 1988.

GAO Comments

1. OMB's recommended change has been incorporated in the Executive Summary.
2. We have incorporated, on page 3, OMB's suggested revision to recognize competition between the government and the private sector. We have not added OMB's suggested elaboration of this discussion, as we are not aware that relevant data pertaining to managers' and employees' attitudes readily exist. While the Logistics Management Institute (LMI) report cited by OMB, How Winners Win, notes that the efficiencies prompted by in-house A-76 winners leads to greater accountability, productivity, and employee morale, it also says that often such feelings are short-lived as workers find themselves working harder for the same pay because of reductions in staff to be more competitive with bidding contractors.
3. As discussed on page 29 of the final report, we recognize it is not possible to solely attribute the problems in implementing the requirements of the program to either procedural difficulties or agency management. Data show that both the cost study process and agency managers may affect implementation of the A-76 program.
4. We have not incorporated OMB's change to reflect that a more disciplined management attitude to doing A-76 cost studies would enable agencies to achieve OMB's newly established goals. While we acknowledge that achieving OMB's goals is not impossible, we continue to believe it is unlikely that the goals will be met, especially in the short term. The report points out, on page 27, that agencies were far short of meeting previously established goals, which were much smaller than OMB's current goals.
5. We have not incorporated OMB's suggested change. While we generally agree with OMB's statement that managers are responsible for clearly defining the organization's work requirements and setting standards of performance, in practice this has been a troublesome process. Not all managers are skilled in the detailed requirements and procedures for doing A-76 cost studies and are not responsible for doing such studies on a routine basis. Moreover, accurate and complete work load and financial data are not always readily available.

6. OMB suggested we address the reasonableness of the time it takes to complete A-76 cost studies. We have not incorporated this change, as neither OMB nor DOD have established a standard time frame for completing cost studies. OMB also suggested we cite statistics on the number of employees who left their commercial activity positions during cost studies. We know of no readily available relevant statistics on the number of employees who left their government positions during the course of cost studies. The report provides examples of problems managers face when their workforce is reduced during the study and the work load persists.

7. OMB suggested that our report include the findings of the LMI report with regard to increased employee morale and productivity following a cost study. We have not incorporated the findings of the LMI report, as it contains conflicting information concerning the effect of A-76 studies on employee morale and productivity, as discussed on page 66. Further, we are not aware that relevant data readily exist pertaining to changes in managers' and employees' attitudes caused by A-76 studies.

OMB also suggested we include managers' suggestions to improve the A-76 study process. We have not done this because such suggestions are contained in the final report of the President's Commission on Privatization.

8. As noted in comment 4, we have not incorporated OMB's suggested change. While we understand that achieving OMB's goals is not impossible, based on agencies' past performance we continue to believe it is unlikely the new goals will be met, especially in the short term.

9. We have, in part, incorporated OMB's suggested revision on page 8. However, we continue to believe that the primary emphasis of the A-76 program is to reduce the cost of government.

10. We have incorporated the change on page 10.

11. We have incorporated OMB's comment on page 11.

12. We agree, and have incorporated the change on page 13.

13. We have incorporated the change on page 13.

14. We have incorporated OMB's comment, in part, on page 13. However, we believe that the Most Efficient Organization (MEO), in conjunction with the PWS, serves as management's new plan, as it establishes the

most efficient and effective in-house operation necessary to satisfy the requirements of the PWS.

15. We have incorporated OMB's suggested changes on page 13.

16. We agree with OMB's suggestion, and have incorporated this condition on page 13.

17. We agree with OMB's elaboration, and have incorporated the change on page 13.

18. We agree with OMB's suggested change which alerts the reader that the problem of reduced morale has been "reported" in the past and have incorporated the change on page 17. However, we have not incorporated OMB's suggested language that reduced morale is only a temporary phenomenon, as we are not aware that relevant data pertaining to managers' and employees' attitudes during the cost study process exist.

OMB, citing the LMI report, commented that if used properly, competition with the private sector can increase morale and productivity. We have not incorporated this suggested change in the text, as the LMI report contains conflicting information, as previously discussed in comment 2.

19. We have not incorporated OMB's comments in the text of the report. While we agree that agency managers are responsible for accomplishing their missions in an efficient and effective manner, the report's characterization of A-76 as micromanagement of agency operations is attributed to DOD managers who have had firsthand experience doing cost studies following the A-76 procedures.

20. We have not incorporated OMB's suggested elaboration regarding the benefits of the A-76 program. The report, on page 20, presents the views of DOD officials who testified about the benefits of the program before the President's Commission.

We also have not incorporated OMB's comment that employees exhibit better morale and show higher levels of productivity when they are held accountable to goals set by the organization. We are not aware that relevant data pertaining to managers' and employees' attitudes following the completion of cost studies readily exist.

21. We have not incorporated OMB's revision which would suggest that the 1983 Circular A-76 revision was responsible for increasing the time

it takes to complete cost studies. We believe the provisions and procedures established through the numerous A-76 revisions—not just the 1983 revision—have contributed to the time necessary to complete cost studies; we have revised the text on page 17 for clarification.

22. We have incorporated the change on page 17. Factors contributing to the time it takes to complete cost studies, and suggestions for improving the process are contained in the final report of the President's Commission on Privatization.

23. We have not incorporated OMB's comment in the report. We believe the discussion on pages 18 through 20 addresses the difficulties encountered in doing cost studies and the corresponding benefits.

24. We have incorporated OMB's suggested change on page 18. We also have elaborated on our examples, on pages 18 and 19, to reflect that savings were still realized on some contracts even though omitted tasks added to the cost of contracting the functions.

25. We have included an additional example (page 18) from a 1985 GAO report which discusses cost increases due to contract errors or ambiguities. On page 19 of the report we have included a discussion regarding the reasons cited in an Army Inspector General report for problems in PWS preparation, and recommendations for corrective action.

26. We have not incorporated OMB's comment in the report, as we believe our discussion points out the problems managers face when employees search for other positions during the course of a cost study.

27. We have not incorporated OMB's comments in the report. Our work at this installation showed that employee attrition during the cost study process created backlogs of work that required the government to incur unanticipated costs.

28. We have not incorporated OMB's comments in the text of the report. As discussed in Comment 5, while we agree that managers are responsible for clearly defining the organization's work requirements and setting standards for performance, in practice this has been a troublesome process for several reasons, as cited in comment 5.

OMB also suggested that we discuss whether the benefits derived from the program actually offset the difficulties in doing the studies. We believe a major barrier to analyzing the cost/benefit relationship of

doing cost studies is the lack of complete, accurate, governmentwide data, especially data regarding actual savings following contract award, to do such an analysis.

29. We have incorporated the change on page 23.

30. We have incorporated OMB's comments on pages 22 and 23.

31. We have incorporated this change on page 23.

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Related GAO Products

Federal Productivity: DOD Functions With Savings Potential From Private Sector Cost Comparisons (GAO/GGD-88-63FS, Apr. 8, 1988).

Contracting Out for Commercial Activities and Services Under OMB Circular A-76 (GAO/T-GGD-88-7, Jan. 7, 1988).

Federal Workforce: Provisions for Comparing Government and Contractor Retirement Costs Should Be Changed (GAO/GGD-88-25, Dec. 17, 1987).

Federal Productivity: Potential Savings from Private Sector Cost Comparisons (GAO/GGD-87-30, Dec. 31, 1986).

Information from Previous Reports on Various Aspects of Contracting Out Under OMB Circular A-76 (GAO/NSIAD-85-107, July 5, 1985).

DOD Functions Contracted Out Under OMB Circular A-76: Costs and Status of Certain Displaced Employees (GAO/NSIAD-85-90, July 12, 1985).

DOD Functions Contracted Out Under OMB Circular A-76: Contract Cost Increases and the Effects on Federal Employees (GAO/NSIAD-85-49, Apr. 15, 1985).

Synopsis of GAO Reports Involving Contracting Out Under OMB Circular A-76 (GAO/PLRD-83-74, May 24, 1983).

Expanding the Efficiency Review Program for Commercial Activities Can Save Millions (GAO/FPCD-81-77, Sept. 30, 1981).

Increased Agency Use of Efficiency Guidelines for Commercial Activities Can Save Millions (GAO/FPCD-81-78, Sept. 30, 1981).

GSA's Cleaning Costs Are Needlessly Higher Than in the Private Sector (GAO/AFMD-81-78, Aug. 24, 1981).

Review of DOD Contracts Awarded Under OMB Circular A-76 (GAO/PLRD-81-58, Aug. 26, 1981).

Civil Service and Contract Employees: Who Should Do What for the Federal Government? (GAO/FPCD-81-43, June 19, 1981).

Factors Influencing DOD Decisions to Convert Activities from In-House to Contractor Performance (GAO/PLRD-81-19, Apr. 22, 1981).

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